

Warming the US-Bangladesh relations

Discretionary tax policy hindering collection

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THE Tax-GDP ratio is very low with about 10% in Bangladesh, but keeps improving at a slow pace. Both tax and non-tax revenues as a percent of GDP have been increasing over the years. But the status is the worst among the SAARC countries. Both the Tax-GDP ratios and revenue-GDP ratios are the lowest in Bangladesh among the seven SAARC countries too. The average SAARC Tax-GDP ratio is about 15%. The Corporate Taxpayers are the highest income tax payers. Out of total income tax, the share of corporate income tax was the highest (72.1 percent) during 1981-82 to 1985-86, while in 2007-08, it was around 59.1 percent.

In case of personal income taxes it shows that only 13 percent taxpayers paying around 73 percent of tax revenue collected through personal income taxes and interestingly about 53 percent taxpayers pay only 0.08 percent taxes. The burden is unevenly distributed among the registered taxpayers. In reality a major portion of taxes is paid by a small group of people with higher marginal rates. Bangladesh tax structure is biased against the poorer class, especially in the rural areas. This view is often expressed by a section of the community, particularly in the urban sector, that the present tax structure weighs heavily against the business and entrepreneur class. It is due to the fact that the effective tax rate is higher in the urban sector than in the rural sector because of the difference in the nature of tax and the intensity at which such tax is imposed on the two sectors, and the structure of consumption and income between urban and rural sectors.

The complexities in the tax laws are cost-incurring. Huge resource costs in terms of administrative costs (tax collection costs) and compliance costs (taxpayers' costs) in terms of out-of-pocket costs and non-monetary costs. However, many of these complexities are beneficial for those who can exploit them. The livelihood of the tax lawyers and corruption of Tax officials is dependent on the complications of the tax code. The complexities in the tax laws are also cost-incurring. Huge resource costs in terms of administrative costs (tax collection costs) are involved for these. The NBR's administrative costs were Tk. 5,705.2 million in 2007-08 to collect Tk. 474,356.6 of tax. Thus, average annual tax collection costs (per Taka 100 of tax) in 2007-08 was Tk. 0.51 for indirect tax and Tk. 0.60 for direct tax and hence a total of Tk. 1.20 for overall tax (including the NBR's Head Office costs).

From the perspective of taxpayers, the costs of complexities are mainly related to compliance, which include the following: Direct monetary outlays for professional guidance, expenses for recordkeeping and 'supplies' (stationeries, files, etc.), expenses for buying latest tax publications, cost of audits, appeals and lawsuits. Time spent by the taxpayers on their tax affairs for preparing return, activities such as researching the tax law, meeting with an advisor, or arranging financial affairs to minimize taxes added to the cost, which is hardly assessable in terms of money.

Salary is the main source for Government employees, it includes all kinds of pay, dearness allowance, overtime allowance, bonus, leave salary, advance pay, all allowances, pay for rent free accommodation, pension, interim relief, house rent allowance and contribution of NPS. And following the items does not include such as Children Education allowance, Hostel subsidy and Transport allowance. In Income Tax Ordinance, 1984, an exclusive definition is given in Section 2(58) where it is said that salary includes: (a) any wages, (b) any annuity, pension or gratuity, (c) any fees, commissions, allowances, perquisites or profit in lieu of in addition to salary and wages, (d) any advance salary; and (e) any leave encashment. Based on this definition of salary and practical situation elements of salary can be identified as income of any Government or Private officials.

Income Tax Ordinance, 1984, has allowed the government officials, having taxable income, to pay income tax on their basic salary and enjoy exemption on other allowances. But for many years the income tax for government employees is deemed paid by their employer that is government. However, if a private employer pays income tax for its employees, such payments are considered income, which creates additional tax burden for the employees of the private firm.

Since 2010, officials of all the government offices are paying tax on their basic salary while officials of private companies are paying tax on both basic salaries and other allowances.

But another discrimination created by an order of Ministry of Finance and complexities over collection of income tax on allowances and other income of the officials of state-owned enterprises (SoEs) and autonomous bodies have created confusion among the taxmen in the current fiscal year. According to the income tax rules the officials and employees of the SoEs and autonomous bodies, who have taxable income, have to pay income tax on both of their allowances and basic salaries while finance ministry's order allowed them to pay tax only on their basic salaries that full government officials are enjoying, tax officials said.

Taxmen are puzzled over two contradictory rules of the government on collection of income tax from the officials of SoEs and autonomous bodies. Due to the order the tax of employees of SOEs are same as of Employees of private companies. According to a comprehensive report at a daily newspaper, NBR deducts the tax at source from salaries drawn by government officials. According to available data the NBR receives more than 50,000 tax returns every year out of more than 1.0 million government officials. The tax official said the government would earn additional Tk 4.0 billion tax by imposing tax on allowances of the officials of the state-owned bodies.

Since tax is so pervasively related to our life, the taxpayers should not be a victim of complexity of the tax laws. Contradictions and complexities for employees among government, autonomous and private organizations have created frustration among the tax payers. This seems discriminatory, that encourages employees of private firms to avoid or evade taxes and frustrate the SOE employees. Such discriminations are responsible to create social inequality and distortion in the tax system of the country with negative impact on her Tax-GDP ratio and hindering the expansion of tax base as well. The contradictions and complexities of law and rule should be corrected as soon as possible.

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BOTTOM LINE



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Although during her second term (2009-2013), the Hasina government had become an ally of the United States in the war on terrorism and a Dialogue partner as per "the Dialogue on Partnership" Agreement of 5th May 2012 during the visit of Secretary of State Hillary Clinton, bilateral relations continued to be cool but routine in nature.

Many argue the suspension of Generalized System of Preferences (GSP) in June last year was only a discreet manifestation of its discreet displeasure with the Bangladesh government on the pretext of aftermath of Rana Plaza tragedy. Although the suspension does not directly affect the country's multi-billion-dollar cloth-export to the US, it is the international image of Bangladesh which has been damaged.

Since 2009, no visit of the Prime Minister took place to the White House when President Obama received so many Asian leaders including the leaders of Pakistan, Myanmar and Vietnam.

During the second term of the Obama administration, Secretary of State John Kerry came twice to South Asia (India and Pakistan) but avoided visit to

Bangladesh. He abruptly cancelled his proposed 6-hour trip to the country.

After the January 5 non-inclusive election which the government held as a constitutional necessity, the relations appear to have become worse. No congratulatory message came from the US administration to the Prime Minister for her third term, and the US continues to demand credible and inclusive polls soon, meaning that the January polls did not reflect people's will.

There are many factors which have contributed to this state of cool relations and the main ones seem to be as follows:

First, the reportedly harsh remarks about the founder of the Grameen Bank and Nobel Peace Laureate Professor Muhammad Yunus of the government leaders did not go down well with the Obama administration. Professor Yunus was awarded the Presidential Medal of Freedom and the Congressional Gold Medal from the US, a rare honour. Naturally the US wants to see a person who has been held in so high esteem by the US administration and the Congress well-treated in his own country.

The former US Secretary of State Hillary Clinton, during her 20-hour visit to Bangladesh in May 2012, did not miss words in her praise for Dr. Yunus. To further illustrate her admiration for the Nobel laureate, Clinton held an hour-long breakfast meeting with Dr. Yunus.

Second, the US wants to see multi-party democracy flourish in Bangladesh. Both the US and Bangladesh nationals have utter dislike of authoritarian rule. Last year US Secretary of State John Kerry wrote a letter to the Prime Minister and the Leader of the Opposition to come to an agreement ensuring inclusive, free and fair elections. It is reported that the government did not respond to Kerry's letter.

Third, the failure to prosecute the alleged murderer of labour leader Aminul Islam has infuriated the powerful trade union of the US-AFL-CIO, and the US

Ambassador has several times called for thorough investigation leading to detection and punishment of the culprit. Furthermore, the US expressed concerns on mysterious "disappearances" of Bangladeshi citizens during the tenure of the government.

Having said that, the US remains engaged for its own interest with Bangladesh which is strategically very important to the US. Bangladesh shares borders with India and a rising reformist Myanmar and is close to China. The country stands as a physical conduit between South Asia and South East Asia.

Bangladesh's access to the Indian Ocean is strategically important. Bangladesh is an integral component of that interconnectivity in the US proposed New Silk-Road (economic corridor) linking Central Asia, Afghanistan, Pakistan, Nepal, Bhutan, India, Bangladesh, Myanmar and China.

For strategic reasons, the US maintains military cooperation with Bangladesh. The third annual exercise "Cooperation Afloat Readiness and Training" (CARAT) was held at Chittagong Naval Base Issa Khan in mid-September last year for six days to address shared maritime security priorities and a five-day exercise titled "Exercise Cope South-2013" between Bangladesh Air Force, and Pacific Air Force, USA, took place on November 9 to enhance BAF's capability during natural disasters.

The issues in which the US have concerns are political and. decisions at a political level have to be made by the Hasina government on issues such as, holding another early inclusive parliamentary polls, ending extrajudicial killings and holding those accountable those responsible for the deaths, halting harsh treatment of political opponents, and securing workers' rights as well as safety issues in garment sector.

The reality is that Bangladesh needs the US as much as the US needs Bangladesh in a rapidly changing security environment in Asia-Pacific region.

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Is China the answer to bridging infrastructure gap?

M. SHAHIDUL ISLAM

BANGLADESH'S infrastructure deficit is well documented. The country, along with Nepal and Mongolia, has one of the worst infrastructure facilities in Asia. This has been documented by Asian Development Bank (ADB) in its publication on Infrastructure for a Seamless Asia. Most South Asian countries do not fare well in infrastructure provisions when compared with East and Southeast Asia. In fact, there is a dazzling difference between the two regions as far as infrastructure provisions are concerned. Some estimates suggest that India and Bangladesh need \$1 trillion and \$35 billion of infrastructure investment respectively in the next five years.

As Bangladesh urbanizes rapidly the demand and supply gap of the country's infrastructure increases fast. To address its infrastructure deficit in the area of transport, highways, port, multi-purpose bridges, dams, energy grids, water & sanitation services, among others, the government channels domestic resources as well as seeks external assistance, particularly from multilateral agencies such as the World Bank and ADB. The government also works with some financially and technologically advanced countries, such as Japan and China, to address the country's infrastructure bottlenecks. A number of large projects have also been implemented with external funds, loans and other assistance.

Despite these efforts, the infrastructure gap remains wide, not because the government allocated very little resources for the infrastructure sector. The investment rate -- measured by the ratio of gross fixed capital formation to GDP -- has increased over the years. However, the rate is not enough to cope with the rapid rise in demand for infrastructure and urban utility services. China's gross fixed capital formation, for instance, is about 47 percent of its GDP, compared to India's 30 percent and Bangladesh's 27 percent.

Inadequate domestic funds, underdeveloped financial system, particularly the equity market, and governance deficits are primarily responsible for Bangladesh's poor infrastructure. In recent years, the government sought increasing help from multilateral agencies to narrow the infrastructure gap. Drawing of cheap funds (with about 1 per cent interest and higher maturity time) from these development partners is probably the best available option as far as infrastructure financing is concerned.

However, owing to governance deficit the government is facing increasing difficulties in accessing these development partners' funds. The withdrawal of the WB and other partners' from the Padma Bridge project on corruption charges is a classic example as to how Bangladesh's governance deficit costs its infrastructure development. Similarly, being unable to draw large funds from multilateral agencies for base-load power plant development, the government is increasingly relying on high cost solution to the power problem, generating a significant share of electricity by rental power plants. Owing to these problems, the country has been

consistent in missing investment targets set by the five year plans.

In its latest move, the government has sought China's help to address the country's infrastructure problem. A recent Daily Star report indicates that the government has requested the Chinese authorities to channel \$8.6 billion to finance 14 infrastructure projects involving building the Ganges barrage, a high speed train between Comilla and Dhaka and a rail bridge over Jamuna, among others. In fact, in recent years, Chinese loans and investment in Bangladesh has increased substantially and Beijing is keen to develop the latter's key infrastructure projects, investing billions.

This is in fact not unique in the case of Bangladesh. China which has developed a dazzling infrastructure at home is increasingly building infrastructure from Southeast Asia, Central Asia, South

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Asia and Africa to Latin America. China which holds the world's largest foreign exchange reserves (about \$3.8 trillion) is investing a part of reserves in infrastructure and other development projects aiming at diversifying its reserve assets, creating markets and increasing its influence around the world.

Moreover, unlike the WB and ADB, it is relatively easier to deal with Beijing on infrastructure financing as issues such as good governance is not a prerequisite to access the Chinese funds. In fact, China has become a critical economic partner of Africa thanks to its large investment in the continent. Moreover, it is the low cost supplier of infrastructure provisions.

Connecting history with the future, in its latest move, Beijing is planning to develop a 'silk route economic belt' in the Central Asia and a 'sea silk route' in Southeast Asia and perhaps linking South Asia as well as developing deep sea port and other maritime infrastructure. In fact, China has already built a number of deep sea ports in South Asia and other regions, including Pakistan and Sri Lanka. Some analysts, nevertheless, see this move as Beijing's response to the United States' so-called 'Asia Pivot', an increasing American presence in the Asia-Pacific region in the coming decades.

That said, in the case of Bangladesh, China sees

that financial returns of infrastructure investment could be positive given the former's market size and economic potential. Moreover, Beijing's infrastructure development in Bangladesh has multiple objectives. First, given its higher wage cost China intends to develop several industrial parks and key infrastructure in Bangladesh so that goods produced in those parks could be catered to the demand of Chinese consumers with low transportation cost. Second, to ensure its energy security and access to the Bay of Bengal, Beijing intends to develop a deep sea port in Sonadia, Cox's Bazar. Third, it would like to see Chittagong becoming a major connectivity and industrial hub of the region so that the city is increasingly integrated with China's landlocked western provinces, particularly Yunnan, by developing Chittagong-Kunming road and railway links through Myanmar.

However, the successive governments in Bangladesh have been hesitant to engage with Beijing in key infrastructure projects, particularly on deep sea port and connectivity that have both economic and geo-political implications. New Delhi, in particular, raises its concern over Beijing's massive infrastructure investment in the region. Nevertheless, the concern has subsided to some extent of late as both Beijing and New Delhi have agreed to develop an economic corridor under the aegis of the BCIM economic corridor. Given the economic and political opening up of Myanmar, Chittagong could lose its strategic importance to Naypyidaw if there is a further delay in deep-sea port development. This project should also be implemented on a priority basis.

This time around, particularly following the controversial elections of 5th January, the Awami League government seems quite serious in bridging the country's growing infrastructure provisions and in doing so it would like to partner with China given the latter's expertise and financial strength as well as the limitations of other financing options. Nonetheless, at this stage the government has prioritized the projects that are geo-politically less sensitive. From Beijing's point of view, it may not be the first best option regarding its infrastructure objectives in Bangladesh. However, it is also an opportunity to involve with multiple infrastructure projects that could foster market and increase Chinese influence in Bangladesh.

To sum-up, over two decades of economic and political reforms of Bangladesh, mostly led by donors and development partners, the country has made little dent in improving its governance quality, which is now becoming an increasing constraint to drawing infrastructure funds and other long term investment in the country. As a second best option, Bangladesh could still improve its infrastructure by employing China's cheap finance and technology. However, in this infrastructure paradigm shift the success will depend not so much on governance but geo-politics.

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CROSSWORD by Thomas Joseph

ACROSS

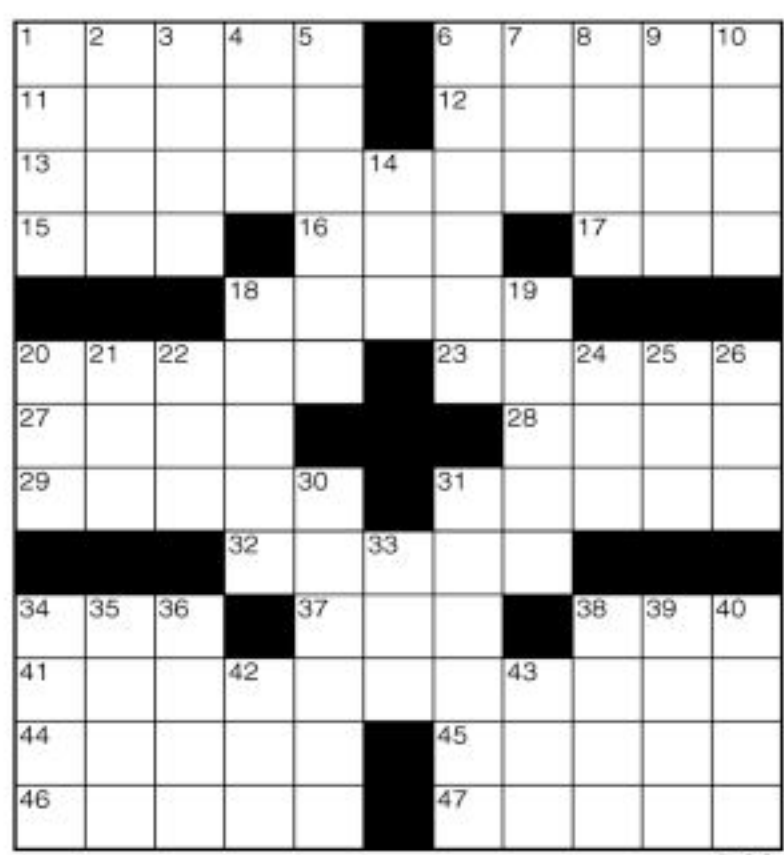
- 1 Strong winds
6 Explain away
11 Left, at sea
12 Make blank
13 2003-04
NBA Rookie of the Year
15 Chopping tool
16 "The Raven" writer
17 Gallery fill
18 Colorful songbird
20 Let in
23 Return to base
27 Cajole
28 Fibula or femur
29 Concluded
31 Climber's spike
32 Number
part
34 That lady
37 Junior, to senior
38 Owns
41 2007-08 NBA Rookie of the Year
44 Dancer
Castle
45 Winter coat
46 Cartoon pig
47 Malign

DOWN

- 1 Fancy do
2 Pinnacle
3 Earring site
4 Mess up
5 "Cut that out!"
6 Turn down
7 Memorable period
8 Crimson
Tide, for short
9 Manual reader
10 Final, for one
14 Sine qua
18 Repaired
19 Custom
20 Tennis feat
21 Oxford VIP
22 Fuming

24 Understood

- 25 One, for Juan
26 Signing need
30 Noted
name in
animation
33 Mercury or Mars
34 Pass over
35 Valiant one
36 Continually
38 Long eared runner
39 "Diana" singer
40 Walk of Fame symbol
42 Squid's squirt
43 Lamb's dad



CRYPTOQUOTE

EALQD NAD CKBD NAGN KQ OLQN
ZQDBZC, GPT AGYKN FKCC OGHG KN
NAD OLQN GRXDDGYCD.

—BXGPEKQ YGELP

Yesterday's CRYPTOQUOTE:

Always behave like a duck — keep clam and unruffled on the surface, but paddle like the devil underneath.

— Jacob Braude

Yesterday's answer



A XYDLBAAXR is

LONGFELLOW
One letter stands for another. In this sample, A is used for the three L's, X for the two O's, etc. Single letters, apostrophes, the length and formation of the words are all hints. Each day the code letters are different.



He that gives good advice, builds with one hand; he that gives good counsel and example, builds with both; but he that gives good admonition and bad example, builds with one hand and pulls down with the other. Francis Bacon

এককালীন মূল্য পরিশোধে
ঢাকা'র বিভিন্ন লোকেশনে
রেডি অ্যাপার্টমেন্ট কিনুন*!!!
মূল্য আপনার হাতের নাগালে...

* আলোচনা সাপেক্ষে মূল্য নির্ধারণ করুন।

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